ARAB WATCH ON ECONOMIC AND SOCIAL RIGHTS 2016
INFORMAL LABOR

Neoliberal policies and informal labor in the Arab region

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Introduction:

According to the definition of the International Labor Organization (ILO), informal economy encompasses all workers' economic activities, in addition to the economic units that are not covered by official requirements and measures and regulatory requirements, either because this category of workers is active in sectors that are not covered by laws, or because laws that are supposed to protect them are not applied. This definition means that the informal economy encompasses at the same time the informal sector and informal positions in formal or structured companies (1).

Given the importance of the legal approach of this topic, we consider that "the informal or unstructured labor" is more appropriate because it focuses on "jobs and workers", and focuses on the lack of workers' rights. Furthermore, focusing on the jobs results in avoiding the complexities related to the enterprise-based concept, and allows controlling the progress of decent work (2). The gender approach as well as gender equality require taking into consideration unwaged care workers (cooking, children care, housekeeping, hosting visitors, organizing weddings and condolences, etc.).

It is worth noting that the informal economy is not anymore limited to the agricultural sector or Southern countries, but is more widespread in developed capitalist countries, and in many sectors like electronics, textile, apparel, construction, tourism and domestic services (3). In the MENA region, 28% of the Gross Domestic Product (GDP) of a standard country comes from the informal labor, which accounts for 65% of the country's active population (4).

In addition, informal labor represents 45 to 55 percent of the labor outside the agricultural sector in Mediterranean Arab countries (5).

There are multiple reasons for the spread of informal labor in the Arab region, including demographic factors (particularly the significant increase in the percentage of active population who entered the region during the demographic transitional period), exodus to cities, incompliance between education results and labor market requirements, growing poverty, social exclusion and administrative obstacles, in addition to social and cultural obstacles preventing women from accessing the labor market. However, the economic policies adopted in the region since the 1980s played a key role in the growing phenomenon of informal labor. Economic policies mean macroeconomic policies (financial policy, monetary policy, and fighting inflation), trade, investment, and financing policies, in addition to the policies of privatization and reforming State-owned enterprises (6). The neoliberal analysis is based on the restricted State's development model that prevailed in the 1960s and 1970s, and which led, according to those who adopt this analysis, to the external debt crisis in many developing countries – to focus on the need to adopt alternative economic policies based on the efficiency of free markets in terms of the optimal allocation of resources, the importance of valuating the role of the private sector and individual ownership, in addition to the need for preserving macroeconomic balances. Enforcing these policies would accelerate growth, improve productivity and competitiveness, and encourage exportation to create new jobs and reduce unemployment (7).

The present paper aims at rejecting these assumptions by studying the effect of neoliberal policies on the informal labor in the Arab region, showing its contribution to the chronic spread of informal economy. In order to prepare this paper, we counted on the available literature and studies, knowing that a key part was reserved to research about the phenomenon of informal labor in the Arab world. We will expose in the first part the content of these policies as implemented in many Arab countries, highlighting the role played by international institutions and its relation with the growing phenomenon of informal labor. The second and third parts will analyze the impact of the policy of liberalizing external trade, and then macroeconomic policies, on the informal labor in the Arab world.

1- Part one: The content of neoliberal policies in the Arab world and the influence of international institutions

1.1 Content of neoliberal policies in the Arab world

Internal and external factors have converged and made many Arab countries adopt neoliberal policies with a view to see their economies overcome the crisis in the 1970s and 1980s. In fact, the restricted performance of the State's capitalist system, focusing on import substitution industries – by different degrees – by Arab countries (with the exception of GCC countries) (8), and the absence of people's participation are all factors that aggravated the economic and social situation in these countries. It should be emphasized here that the profound transformations at the global level (abandoning the Bretton Woods system, freeing capital from censorship, etc.), and economic tensions (Major shocks in the oil market, the high interest rate at the global level, the economic recession in rich capitalist countries, etc.) have worsened the sufferings of relevant Arab countries. These factors, in addition to internal factors, have aggravated external debt and the deterioration of macro-economic balances. To overcome this situation, relevant Arab countries resorted to international financial institutions – International Monetary Fund and the World Bank – to obtain financial support and "technical consultation". Therefore, many Arab countries (Egypt, Morocco, Tunisia, and Jordan for instance) applied the so-called "Washington Consensus" based on three pillars: Liberating the economy, privatization, and financial austerity. The key objective of this new economic trend was to integrate these economies in the globalized capitalist system, fulfill the expansion needs of major monopolies and multinationals, and achieve more capitalist accumulation and global dominance.

Policies adopted through stabilization and structural adjustment programs focused on restoring macroeconomic balances (public finance and balance of payments), and the progressive liberalization of economic, commercial, and financial sectors, privatization, and lifting administrative and regulatory restrictions on private sector initiatives. Restoring macroeconomic balances requires implementing strict austerity policies such as reducing public spending, wages pressure, and stopping the subsidization of basic materials. As for liberating regional economies, Arab countries have particularly adopted more liberal commercial policies (reducing customs duties, alleviating non-customs obstacles, partial liberalization of the services sector) after joining GATT Agreement and the World Trade Organization (WTO), and signing a number of regional commercial agreements (9).

Privatization was used as a main element in the policies of economic "reform" and restructuring, and as a key tool to shift to the so-called market economy and redistribute the roles between public and private sectors in the Arab world. Many Arab countries have also extended the participation of the private sector to the infrastructure sector through BOT, particularly in electricity projects and in building independent power generation stations. Privatization projects tried to take into consideration the social aspect; people working in the privatized corporations (Morocco and Jordan) were retained, or some privatization revenues were used to pay early retirement pensions and subsidies for laid-off workers (Egypt and Tunisia) (10).

As for settings and configuration, changes focused particularly on the “business environment”, i.e. the governmental measures regulating business activities (companies’ registration, issuing construction licenses, cross-border trade measures, tax payment, economic activity liquidation, labor market flexibility, etc.). It is worth noting in terms of labor flexibility closely related to the phenomenon of informal labor as we will explain later, the different non-oil Arab countries have changed their labor laws to make business relations flexible due to the pressure made by international financial institutions and the local private sector, whereas these relations were always flexible in terms of oil ownerships (11).

1.2 The role of international institutions with the outbreak of the phenomenon of informal labor

In the midst of discussions about the effects of globalization on labor in the first decade of this century, ILO, the World Bank, and IMF played a key role in guiding the discussions and setting the policies. If ILO had a major influence on promoting the phenomenon of the informal sector and informal economy since the 1970s, and defending the need for respecting international labor standards, the two other institutions influenced the progress of the labor market and informal labor through the neoliberal policies imposed on debtor states, especially through their focus on labor flexibility as a main tool to encourage the private sector to invest and therefore create new jobs.

ILO focused on the negative aspects of the informal economy which can “can trap individuals and enterprises in a spiral of low productivity and poverty… From the perspective of unprotected workers, the negative aspects of work in the informal economy far outweigh its positive aspects. They are not recognized, registered, regulated or protected under labor and social protection legislation, and are not therefore able to enjoy, exercise or defend their fundamental rights.” (12) However, launching the discussion in 2002 on decent work and informal economy was a shift in the way ILO approached the phenomenon: the term “informal sector” was replaced by a new term which is “informal economy”. Therefore, ILO considered that “as long as it persists, the informal economy will remain the most serious obstacle to the goal of decent work for all”, and confirmed the “importance of a comprehensive approach across the Decent Work Agenda to address its negative aspects through protection and incorporation into the mainstream economy, while preserving its job creation and income-generating potential” (13). In addition, ILO has set a number of policies to refrain informal economy: quality employment generation and growth strategies; the regulatory environment; social dialogue, organization and representation; promoting equality and addressing discrimination; measures to support entrepreneurship, skills and finance; the extension of social protection; and local development strategies" (14).

On the other hand, the two financial institutions added labor market flexibility to the package of structural "reforms" aiming to liberalize goods, capitals, and labor markets. Legislations and laws on the minimum wage, social protection, and the regulation of employment and layoffs are all factors reducing the companies' competitiveness and impeding their owners' adaptation with market fluctuations, companies restructuring requirements, and labor shift to promising exportation sectors as per the vision of these international financial institutions, and thus businessmen are not encouraged to create new positions. This "narrowing" of capital freedom to deal with labor led more to the informal sector to avoid administrative complexities and restrictions on the level of the labor market. Therefore, the growing phenomenon of informal labor according to international financial institutions is the result of State's interference to regulate the labor market; thus, labor market flexibility should be reinforced by removing all obstacles in order to increase private investments, improve competitiveness to create more positions, and reduce the spread of informal labor. Particular emphasis is placed on the fact that labor flexibility reduces labor costs and facilitates recruitment and lay-offs. It also lifts restrictions on term employment contracts, and gives companies' owners more freedom to specify working hours. In fact, this results inevitably into more vulnerable situations for workers and helps spreading informal labor. This approach is clearly biased for investors and capitalists to the detriment of workers' rights which are not more than a cost that must be pressed to win the competitive bet in "free" and open markets around the world. Moreover, some research papers on this topic revealed a positive relation between labor market flexibility and informal labor (15).

It is worth noting that ILO has cooperated with international financial institutions, particularly the World Bank, in order to integrate international labor standards in the programs of the aforementioned institutions, and according to the conditions of obtaining loans from Southern countries. For instance, the International Labor Office and the World Bank proposed incentives to the units working in the informal sector (simplifying administrative procedures and laws, improving public services, etc.) to shift to the formal economy, because this impacts positively the economic growth. They also proposed to create social safety nets and limited contributions to guarantee the social protection of informal workers (16).

However, this field experience shows that international financial institutions focus in dealing with debtor countries on labor flexibility according to a number of conditions to obtain the required loans (17).

Labor market flexibility is also a key factor to measure the ease of doing business and is essential for the World Bank and IMF to liberalize private sector capacities, particularly in terms of recruiting and laying off workers due to "excessive employment, lay-off cost, and working hours." The employment index for instance evaluates positively the countries allowing the adoption of fixed-term employment contracts – i.e. temporary. It is known that such contracts are widely used in Southern countries to avoid registering the relevant workers in the social security and thus depriving them from other social services (18).

2- Part two: The impact of external trade policies and investment on informal labor

Neoliberal globalization means in general reducing the obstacles impeding external trade and liberalizing capitals, in addition to technology spread and workers migration. It is also reflected in the internationalization of production by creating global value chains (or global production networks) (for the formalization of these chains, please refer to figures 1 and 2 in the annex) that leverage the reduced transportation and communications fees and the liberalization of commercial exchange to nationalize parts of these chains in the different countries to benefit from competitiveness (cheap labor, proximity to the markets in developed countries or emerging regional markets, developed technological structures, etc.). The result is subcontracting on the global level and seeking to reduce the production cost in framework of competition between capitalist monopolies – the main guide of globalization –, which contributes to more vulnerable labor, and a growing informal labor inside and outside the official or formal sector (19).

Neoliberal globalization in the 1990s led to the phenomenon of informal labor in many sectors and countries. Globalization helps opening new markets and generates new jobs, but many of these jobs are fragile, and the new outlets are not accessible for small and marginalized producers. In the Arab region, external trade liberalization started by implementing structural adaptation programs in the first phase, and then by signing free trade agreements by Arab countries, particularly Mediterranean ones, with their regional (especially the European Union) and international neighborhood (United States).

What we are interested in is first to examine how trade and investment liberalization policies influence informal labor.

The liberalization of trade and investment affects in various degrees the informal labor according to its quality. Therefore, owners of small informal companies can leverage the demand on some commodities exported from Southern countries to the USA, Europe, and Japan (like Shea butter or shrimps). On the other hand, many small enterprises are going bankrupt due to competition from imported commodities. As for those who work for their own account, their inability to receive loans, training, technology, and information about the markets prevent them from leveraging the opportunities resulting from external openness. However, this type of informal labor is endangered by the competition from imported commodities. Informal waged workers remain the category that is most exposed to the negative implications of trade and investment liberalization. Thanks to free movement on the global level to accommodate labor, the capital is enable to make pressure to get the lowest employment costs according to more vulnerable and instable conditions. The pressure made by the private sector to achieve labor market flexibility under the cover of the need to improve the business environment to promote competitiveness and productivity contributes to this new situation. The situation of informal workers is also affected by the quality of the sector they work in (transformational industry such as exporting cloths or non-traditional agricultural export activities) (20).

In the Arab region, betting on directing economic activities towards exportation did not bring its expected results yet. The exportation of labor intensive and cheap labor industrial products was impeded by tough competition from more productive and lower cost countries – particularly Asian exporting countries. Shifting to exportation was also doomed to failure, knowing that most of Southern countries counted on dominating the markets of developed capitalist markets, which complicated the success of this strategy. For example, the apparel industry in Tunisia and Morocco lost a part of its share from the global market (21).

On the other hand, competition in external markets was tough to the extent of employing increasing numbers of women because they tend less to protestation, and thus it is easier to control them to maximize the value excess, and it is also possible to make them accept low wages without social protection or decent working conditions. The relative increase of exportations went hand in hand with vulnerable working conditions, particularly on the level of labor intensive value chains, such as textiles, apparel, and export agriculture. Therefore, the aforementioned Bernhardt research (22) revealed that the apparel sector has lost many jobs between 2000 and 2012, and real wages have not improved much. In Tunisia, the real value of wages decreased, whereas employment in this sector slightly increased. These changes affected labor vulnerability and contributed to increasing informal labor. In Morocco, trade unions complain about the exploitation of women working in the textile and apparel sector. Women represent 41% of the total labor in transformative industries and 70% of the labor in the textile and apparel sector. The majority of women is the sector are illiterate and do not belong to any trade union. They also suffer from vulnerable working conditions and are concentrated in unqualified jobs. The involvement of these workers in the labor market is necessary to improve the income of their families because the wages of head of families are not enough (23). In Tunisia, the involvement of industrialists in global value chains in the context of association agreements with the European Union has contributed to the growth of labor intensive sectors that employ unqualified women labor and are limited to assembly activities. These sectors have seen a significant increase in the percentage of temporary workers (those who work according to a fixed-term contract or without contract), especially after reviewing the Labor Law of 1996, in addition to low wages and insignificant social protection. Thus, the percentage of workers with temporary contracts in the textiles sector amounted to 68% according to the International Labor Office (24). The situation deteriorated after the Arab Spring when most of apparel companies started counting on temporary workers to be able to meet the requirements and pressure of the European fashion sector. This resulted in higher marginalization and vulnerability of temporary workers, with an increasing unemployment and cost of living.

As for Arab eastern countries, the study of "qualified industrial zones" shows that implications on the informal labor in Jordan are different from those in Egypt. Qualified industrial zones agreements enabled Jordan and Egypt to attract important foreign investments, particularly from South-East Asia for Jordan, to benefit from the significant customs exemptions in textiles and apparel sectors, and circumvent the American quota system imposed on this industry. Agreements also resulted in a significant increase of industrial exportations to the American market, especially for Jordan (for instance, Jordanian exportations increased by 1.25 billion USD in less than ten years). Moreover, tens of thousands of Asian workers were brought in, and women represented 66.5% of them in 2004 and 50% in 2010 (25).

There are many reasons for this option according to investors, including their belief that women labor "is more suitable for the nature of work and more committed". Wages of foreign labor "must be left to the market according to the rule of supply and demand", whereas businessmen consider that the "applicable minimum wage policy suits local labor only" (26). These words unveil one aspect of the exploitation and discrimination faced by the labor force in Jordan. In fact, reports of trade unions and governmental organizations unveiled the scale of blatant violations against foreign labor in the qualified industrial zones, such as "seizing passports, not renewing work permits for some workers, delaying and even not paying the salaries, working for long hours and counting overtime in a way that is less than what is due, in addition to being exposed to humiliation and abuse which sometimes take the form of physical or sexual abuse" (27). Furthermore, most of the companies operating in these zones do not grant social protection to their workers who do not sign any contract (28).

It is worth noting that vulnerability and informality are originally due to the pressure made by American companies – controlling the value chain of the textiles and apparel sector – on its importers in Jordan in order to quickly meet market needs and fluctuations with the lowest costs, in addition to gender-based abuse.

The situation is different in Egypt where laws do not allow more than 10% of foreign labor, although there are cases of foreign labor in an informal framework and outside the scope of the rules in force (29).

Male and female workers are also able to resist overexploitation in Jordan for many reasons including low wages in comparison with wages in other sectors – making workers seek new job opportunities – considering the wages of married women as a complimentary income for the family, in addition to traditions and customs preventing single women from relocating to qualified industrial zones for work. Moreover, the daily long distances from and to workplaces make working for extra hours more difficult. (30).

Frame 1: Qualified industrial zones agreements

Qualified industrial zones agreements provide for preferential treatment such as exporting a number of commodities from Egypt and Jordan without customs to the American market. In March 1996, an American senator proposed to amend the free trade agreement between USA and Israel to allow the entry of commodities produced in Gaza Strip and West Bank or in the qualified industrial zones between Israel and Jordan and Israel and Egypt. Jordan signed the qualified industrial zones agreement with Israel under American patronage in 1997, whereas Egypt signed this agreement in 2004. According to these agreements and their rules, commodities approved by the USA must be produced in pre-defined geographic locations inside Egypt and Jordan pending USA's consent. In addition, factories benefiting from this agreement must be registered in a given unit at the ministries of trade in Egypt and Jordan to guarantee the application of specific conditions. The key condition is using a given Israeli component to legally abide by the free trade agreement between Israel and the USA, in order to secure access without customs to the American territories…

The main goal of these agreements under the American perspective was to encourage the peace process in the Middle East. As for Egypt and Jordan, their economic and commercial goal was to keep the market share in the USA, particularly for textile products and ready-made cloths, in addition to achieving regional integration between Egypt, Jordan, and Israel.

Reference: Ahmed Farouk Ghanim, The commercial policy in the Arab countries, 2012, p. 92 (quotes) أحمد فاروق غنيم، السياسة التجارية في الدول العربية

The spread of informal labor in the Arab region through global production networks included the agricultural sector. Due to the lack of information in this field, we will only highlight the Moroccan experience. In fact, export agriculture evolved significantly through agricultural agreements with the European Union which allowed the preferential access of Moroccan products to European markets. Moroccan exports are organized within global production networks dominated by Europe. According to studies conducted by civil society organizations (CSOs) working in Morocco about the impact of the red fruits sector – for agricultural and industrial purposes – on the informal agricultural labor (villages) and the informal industrial labor (canning factories), the value chain or production network of strawberry is for example composed of many circles, starting with the agricultural village, then the factory, before exportation to Europe, and so exported commodities reach the distribution networks of the European consumer through importers. (Red fruits are produced in villages that are often owned by large Moroccan farmers, whereas subsidiaries of multinationals have a strong presence on the canning level). Field studies conducted under the supervision of Oxfam showed that the majority of workers in the "Moroccan circle" of the production network are women, knowing that 60 percent of the agricultural labor in Morocco is composed of women whose work is seasonal. Agricultural labor is generally vulnerable because Labor Law requirements are not respected (minimum wage, number of working hours, social protection, leaves, etc.), and their economic and social rights are violated blatantly. In the red fruits sector for example, the observed violations were the unavailability of social security cards, not applying the minimum wage, and not fully declaring the working hours. Moreover, women are exposed to all forms of violence and psycho-social pressure like harassment, sexual exploitation and degrading treatment such as insulting and degradation inside workplaces or on the way to work (31).

Our analysis focused so far on the impact of the involvement of some Arab economies in value chains and scientific production networks on informal labor. In fact, the impact of liberalizing trade on informal labor is also reflected by the repercussions on the sectors focused on the local market, particularly import substitution industries. This issue is complex and not settled on the theoretical and empirical levels (32); thus, we focused more on this topic that did not get enough attention from researchers in the Arab region. We only have some pieces of research about Morocco and Egypt. The first study is relatively old and is about the impact of "reforming external trade" on production factors, i.e. the capital and labor (33). Researchers conclude that this impact is relatively restricted in terms of employment, for that most of the companies have reduced their high profits and improved their productivity to face the fierce external competition resulting from reduced customs duties and non-customs barriers in spite of laying off workers, with the exception of textiles, apparel, and beverages sectors where workers were laid off. However, the numbers of temporary workers increased significantly, which means more labor vulnerability and a growing formal labor with no employment contracts or social protection. The second study is new and covers the industrial sector in Egypt (34). By adopting a political economy approach, researchers noticed that informal labor is increasingly widespread as a result of liberalizing external trade. A third study (35) shows that the gender gap in terms of wages is growing due to trade liberalization, given the weak negotiation capacity of women compared to men, and because they are unqualified and lack experience. On the other hand, commercial openness affected negatively women's labor in the Egyptian industrial sector. The bottom line is that companies compensated their decreasing profits due to the fierce competition from imported products by making pressure on the "weakest ring", i.e. female workers. To face this deterioration in the labor market, we can say that a part of the laid-off female workers shifted to the informal economy to feed themselves and their families.

Part three: The impact of macro-economic and privatization policies and reforming State-owned enterprises to cope with the informal labor

The spread of informal labor in Southern countries in the last decades coincided with the implementation of stabilization and structural adjustment policies in Southern countries as of 1980s (36).

What interests us in this part is identifying the mechanisms through which macro-economic policies (particularly the financial policy) and the policies of privatizing and reforming State-owned enterprises in the Arab World affect informal labor.

The austerity financial policy of Arab countries had adverse effects on growth, employment and poverty. For instance, public spending in non-oil and labor intensive Arab countries (Egypt, Jordan, Lebanon, Tunisia, and Morocco) dropped from 50% of the GDP in the early 1980s to 30%of the GDP in the early 1990s. Public investment also dropped significantly in most of Arab countries from 14-15% to 6-7% during the same period (37). Reducing public spending by reducing public expenses (freezing wages, freezing or reducing public employment, and freezing or reducing the subsidization of basic materials) and investment expenses resulted in a decline in public employment (public employment decreased in 1990-2005-2010 from 58% to 30% in Algeria, from 32% to 27% in Egypt, from 26% to 11% in Morocco, and from 32% to 22% in Tunisia (38). This drop was not compensated by the private sector in the MENA region where the percentage of private investment to GDP slightly improved from 13.82% in 1971-1990 to 15.33% in 2001-2010. This means that this sector is unable to meet the needs of new and numerous comers to the labor market, and so they shifted to the informal economy. On the other hand, reduced public spending resulted in reduced gross local demand, and thus formal labor dropped. Moreover, the decline in public spending has had a negative impact on the State's capabilities in terms of enforcing laws and regulatory procedures, facilitating the growth of informal labor. The size of the informal sector is evolving contrary to the size and capacity of the State's regulatory capacities (for instance, the low budget allocations to ministries of labor and social affairs in the Arab countries mean that low funds are allocated to the management and control of employment conditions and compliance with applicable laws) (39).

The importance of the financial policy lies in its positive impact on growth, poverty and inequality. A recent study about evaluating the pattern of public spending policies in Jordan (40) showed that government transfers raise the net income, and the impact of the disposable income reduces poverty significantly (46.8% in 2006, 44.4% in 2008, and 46.2% in 2010). When adding transfers to the net income, the effect on the disposable income takes the form of reduced inequality (Gini coefficient) by 10% in 2006, 11.4% in 2008, and 10.7% in 2010. The peak of the capital expenditure multiplier is estimated at 5.8.

These austerity policies largely affected the growth rate, capital accumulation, and the ability of Arab economies to provide productive jobs that preserve human dignity. Therefore, the average per capita income growth rate has declined significantly in many Arab countries, namely in 8 out of 18 countries, including Oman, Egypt, Tunisia, Syria, Morocco, Jordan, and Algeria, or remained stable at low levels in Iraq, Qatar, and Yemen (41).

This weak economic performance continued over the past decades and until 2013, when the annual per capita growth rate fell to 1.1 percent (42).

Due to low or slightly high growth rates at the beginning of the third millennium, unemployment continued to rise in almost all Arab countries, with most Arab countries experiencing unemployment rates above 10 percent (43). The Arab region also has the highest levels of unemployment globally, as shown in Figures 3 and 4, especially among young people and women (44).

It should be noted that increasing the growth rate does not always indicate the creation of many productive job opportunities and decent work conditions; the latter depend on the level of growth rate, its quality and integration aspect. From this perspective, the Arab region did not provide decent jobs (i.e. jobs that meet the aspirations of jobseekers and middle class expectations) despite reasonable growth rates (5 percent annually) during the first decade of the 21st century. Most of these positions have been developed by low-value-added service sectors using unskilled labor such as construction, trade, transport and other services, while the industry rate remains low, stable or declining, as in the case of Tunisia, Morocco, Jordan, and Egypt (45).

On the other hand, as a result of the neoliberal policies applied in a number of Arab countries, informal labor is characterized by an upward trend in Algeria, Egypt and Morocco. This is especially evident in the case of Egypt, where the proportion of new jobs in the informal sector has increased from 1 out of 5 in 1970 to 6 out of 10 in 1998 (46). A close relationship is noted between the growth of the informal sector in Egypt and the decline in employment. The proportion of active workers in the informal sector increased from 60.8 percent in 1998 to 67.3 percent in 2006, while this percentage for the public sector declined from 46.8 percent to 39.1 percent during the same period (47).

In general, Schneider informality Index increased annually by 0.69 in 2000-2007 in the MENA region.

This is the third highest percentage in the world after Latin America, Europe and Central Asia. The annual increase for own-account labor in 2000-2011 was 2.1% in the MENA region, the fourth highest in the world (see Figure 5).

3.2 The impact of privatization policies and restructuring State-owned enterprises on informal labor

Privatization and restructuring of State-owned enterprises are presented as a tool for economic reform by getting rid of what is described as inefficiency, rampant bureaucracy, squandering and corruption in State-owned sectors. However, the social cost of this policy may be heavy, as it might result in higher unemployment, and higher numbers of people joining the informal economy under its different forms. The neoliberal hypothesis on the ability of privatization to create new jobs does not take into account the income-based behavior of the private sector and its excessive sensitivity to risk, which makes it prefer unproductive financial and real estate investment. This hypothesis overlooks the possibility of "growth without jobs". Due to the absence of sufficient studies and data on the social impact of privatization in the Arab region, we will merely describe some examples of the negative impact of this policy on employment in Arab countries. In Egypt, the government tried to limit the repercussions of privatization and restructure public companies by using part of the revenues of privatization to establish an early retirement fund that was created to enable workers who are laid off from privatized or restructured enterprises to obtain early retirement pensions under specific conditions and requirements. A total of 610,000 workers and employees were estimated to have been laid off from public sector companies following this process between 199 and 2002, either due to reaching the legal age of retirement or early retirement. Due to the hardships of life and the low level of income of those who were obliged to choose early retirement, those who freely opted for early retirement used what they received in current financing. This prevented the early retirement from being transferred to small projects, the result being that the majority of them were unemployed and candidates for informal labor, in the hope of maintaining a minimum of decent living (48). According to other estimates (49), 495,600 workers were laid off from businesses since the beginning of the privatization program until mid-2006, either for normal reasons or early retirement which is the only recourse for many civil servants, especially with "many new owners of companies deliberately incurring losses to avoid paying incentives and profits to employees."

In the same context, the impact of privatization on employment in Sudan was negative, as it led to an average decline of 44% following a study of employment in 13 privatized enterprises, while an increase was only seen in two enterprises with an average of 17%. The number of people affected by the privatization and rehabilitation of State-owned enterprises in Sudan was estimated at 61,820 workers until 2004 (50). In the case of Jordan, the effects of privatization varied on civil servants from one company to another and from one sector to another. Employees who were integrated in the cadre benefited significantly in terms of salaries, benefits and training. However, 20.4 percent of the labor in the restructured sectors was laid off. The number of workers who received pensions after their layoff represented 9 percent of the total number of employees when the privatization program started. However, 10.4 of the laid-off labor force included workers who did not meet the requirements of retirement, but were laid off for financial incentives and were unable to find alternative jobs, knowing that the financial compensation neither makes up for the pension nor for the moral suffering of those who wish to continue to work (51).

Conclusion

The present paper focuses on the relationship between neoliberal globalization and its manifestations through the adoption by Arab countries of economic policies inspired by the economic thinking of neo-liberalism on the one hand and the evolution of informal labor on the other. International financial institutions have played an influential role in adopting these policies in the region, especially as they have made pressure on debtor countries to adopt a labor market flexibility policy, which has contributed to the deterioration of working conditions and the growing vulnerability of labor and informal labor. In this paper, we have focused on the contribution of trade and investment liberalization and macroeconomic policies, in addition to the privatization of the public sector and the restructuring of State-owned enterprises, to the outbreak of informal labor, both in the informal sector and in the formal economy. We have counted on the analysis of specific cases of Arab economies for which studies and research papers are available, or have provided relevant data and statistics.

The impact of trade and investment liberalization can be detected by at least two channels: the first channel goes through gloom chains and global production networks that are subjected to multinationals. Arab countries are considered among the weakest rings, i.e. low value added and unskilled labor-intensive activities. The study of textiles, apparel and red fruit products, as well as qualified industrial zones showed how global capital pressure to reduce costs, adapt with market fluctuations, and ensure quick and timely supply for the market, in addition to gender-based discrimination have led to growing damages of exploitation, vulnerability and informal labor, especially for women's employment. On the other hand, if the impact of external competition on domestic enterprises is complex and not determined on the theoretical and empirical levels, this effect was negative in Egypt's case. Trade and investment liberalization contributed to the growth of informal labor, with worse effects on women’s employment.

At the macroeconomic level, austerity financial policies implemented in the framework of stabilization and structural adjustment programs have been negative for employment, particularly informal labor. The decline in public spending prevented jobseekers from joining the public service, especially young people and learners, at a time when the private sector compensated the State to push the economy forward. The decline in public investment also adversely affected growth and employment. In these circumstances, the unemployment rate has risen and the unemployed have been forced to find a foothold in the informal sector. The decline in the State's economic role has also slowed the pace of growth and contributed to the spread of unemployment, especially among young people, forcing many unemployed to resort to informal labor in the hope of earning a living that preserves their dignity.

Last but not least, privatizations resulted in laying off large numbers of workers in Egypt, Sudan and Jordan, with worse consequences for women who used to work in better conditions in the public sector in Egypt, with at least part of them being part of the informal labor, as a way to compensate, even partially, their involuntary exit from the public sector.

Footnotes

(1) BIT, 2002. Conclusions concernant le travail décent et l'économie informelle.

(2) العمل اللانظامي في الدول العربية: منظور المساواة بين الجنسين وحقوق العمال، ص 7 منظمة العمل الدولية 2008.

(3) BIT, Conference internationale du travail, 2012. Principes et droitsfondamentaux au travail: Traduirel'engagement en action, 101 emesession.

(4) WB,2014,P 48

(5) Martin, Labor Markets Performance and Migration Flows in Arab Mediterranean Countries. A Regional Perspective, EUI 2009

(6) محمود عبد الفضيل، 2012.

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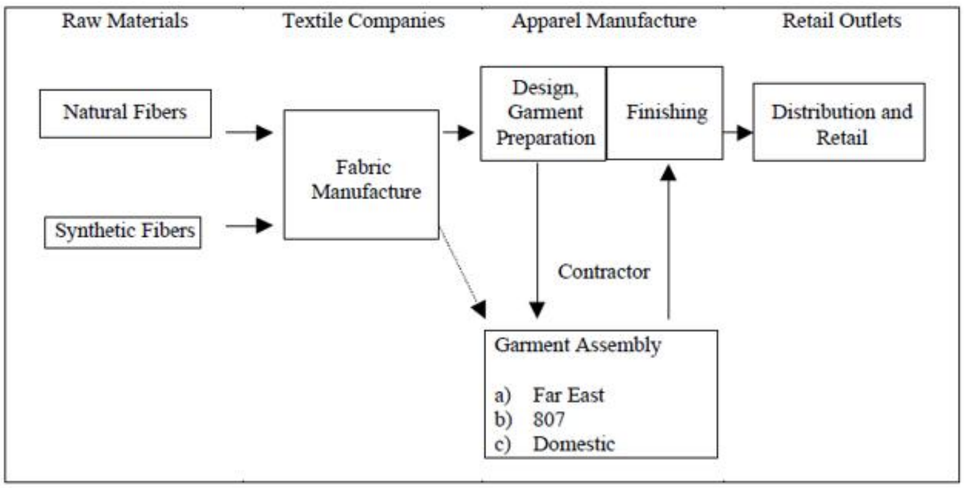
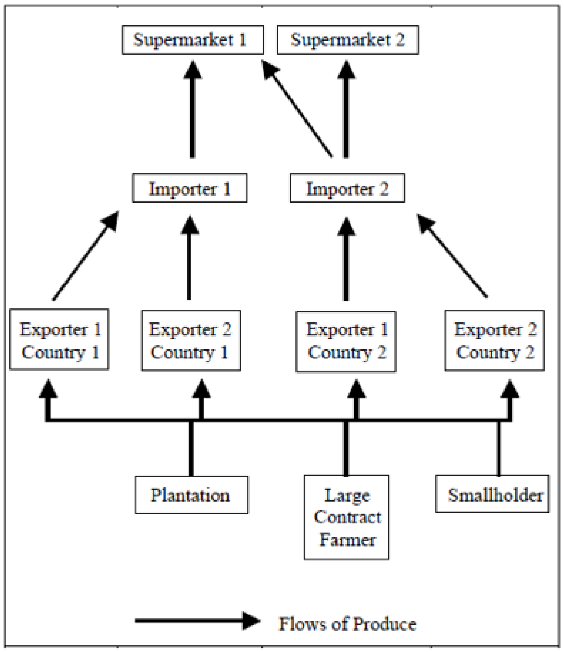
Source of fig. 1 and 2: Carr M and Chen M.A., 2001. Globalization and the informal economy: How global trade and investment impact on the working poor, WIEGO.

Figure 1. Fashion-Oriented Chain



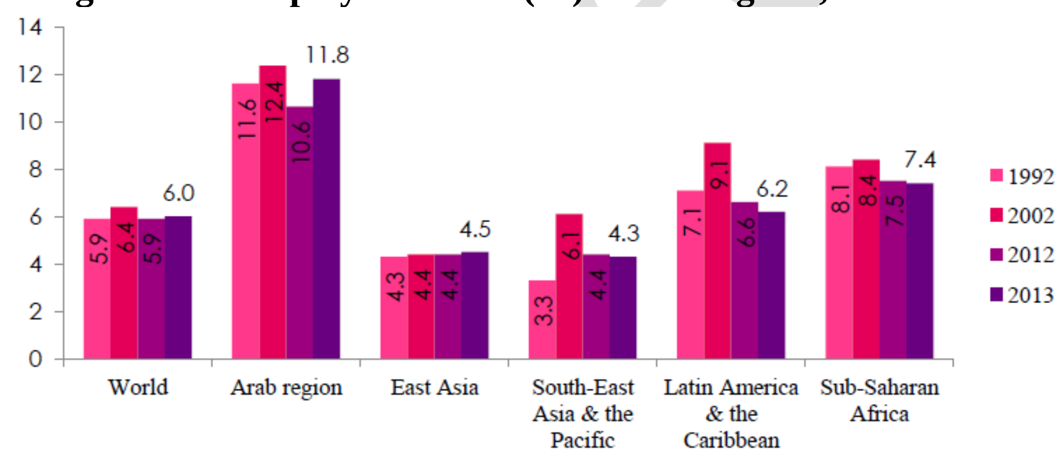
Source: Taplin 1994.

Figure 2. Flows of Produce in African FV Chain



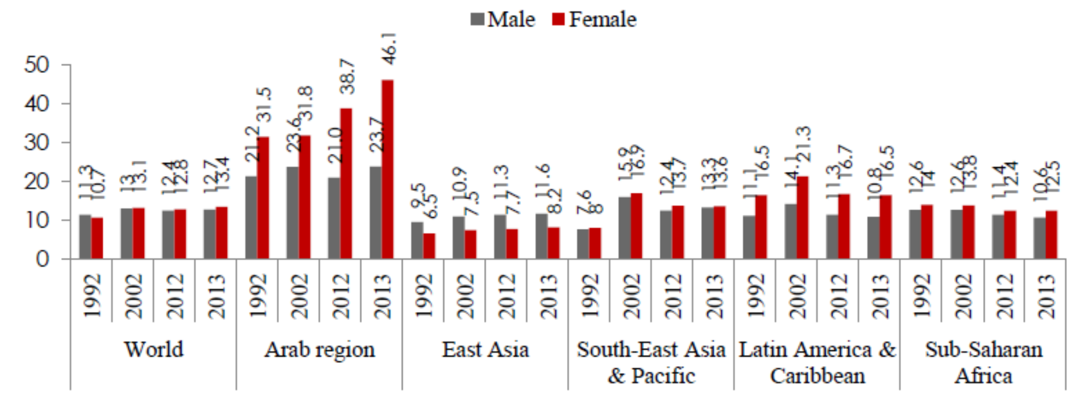
Source: Dolan et al 1999

Figure 3. Unemployment rate (%) across regions, 1992-2013



Source: ILO (2014).

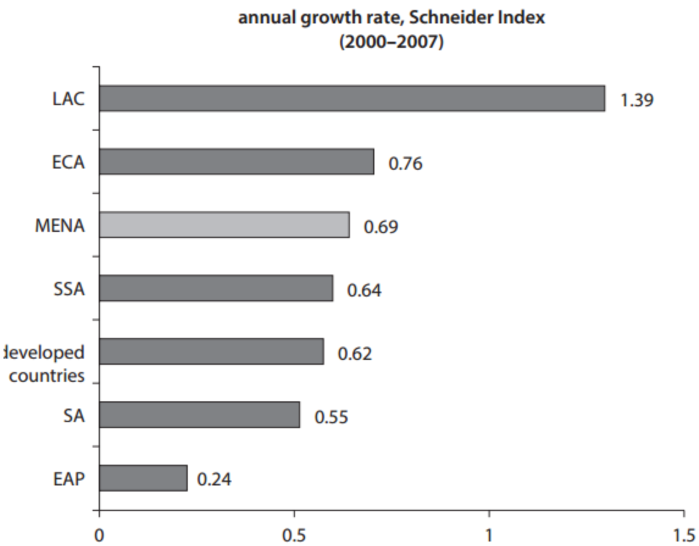
Figure 4. Youth female and male unemployment rate (%) across regions, 1992-2013

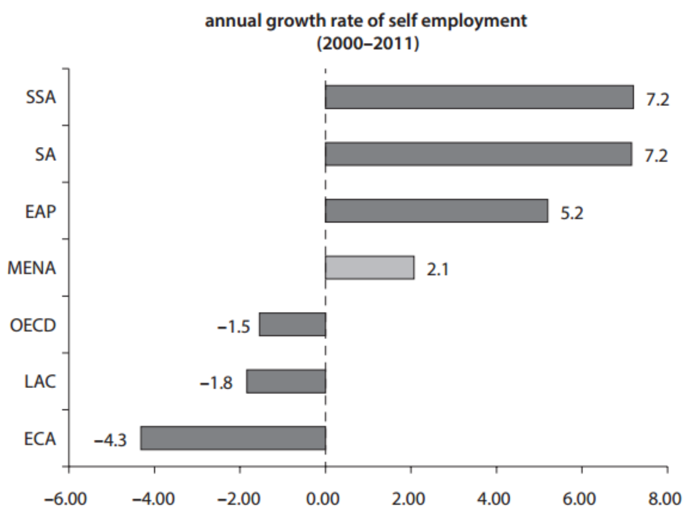


Source: ILO (2014).

Source: Sarangi N, 2015. Economic growth, Employment and Poverty in Developing Economies: A focus on Arab region.

Figure 5. Annual Growth rates of Informality





Source: Processed from Loayza and Wada 2010.
Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; SA = South America; SSA = Sub-Saharan Africa.

Source: World Bank, 2014 .Striving for jobs.

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